MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BME1024 – INTRODUCTORY MACROECONOMICS

(All sections / Groups)

12 MARCH 2018
2.30 pm- 4.30 pm
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 4 pages with 5 Questions only.
2. Attempt **ALL** the questions.
3. Please write your answer in the answer Booklet provided.

QUESTION 1

(a) Answer the following questions:

i. A person makes the following questions it is not clear why intermediate goods are not included in GDP? As an example metals is an important material to produce cars without metals there will be no cars. Provide an answer for this question. (5 marks)

ii. If a car is produced in 2017 but the car was sold in 2018 is it included in GDP 2018? Explain your answer. Moreover, the car dealer who helped to sell the car in 2018 is it counted in GDP 2018? Explain you answer. (5 marks)

(b) Use the information in the table below to calculate the percentage change in real wage for country name A and country name b between the year 1950 and 2017. Is the percentage increase in price level higher in country A or country B? (10 marks)

Country A			Country B		
Year	minimum wage	CPI	Year	minimum wage	CPI
1950	$ 2	21	1950	$ 1.5	20
2017	$ 8.5	217	2017	$ 11.5	150

(Total 20 marks)

QUESTION 2

(a) Based on the following table calculate

i. equilibrium Gross Domestic Product (GDP) (5 marks)

ii. the marginal propensity to consume (MPC) (5 marks)

iii. multiplier (5 marks)

Real GDP	Consumption	Planned Investment	Government purchases	Net exports	Aggregate Expenditure
$10,000	$8,500	$1,200	$1,000	−$400	10300
11,000	9,350	1,200	1,000	−400	11,150
12,000	10,200	1,200	1,000	−400	12,000
13,000	11,050	1,200	1,000	−400	12,850
14,000	11,900	1,200	1,000	−400	13,700

Continued .....

(b) Discuss two of the economic growth policies. (5 marks)

(Total 20 marks)

QUESTION 3

(a) Please indicate the changes on the short run aggregate supply curve caused by the following statement.

i. A higher price level. (2 marks)

ii. An increase in what the price level is expected to be in the future. (2 marks)

iii. A price level currently higher than expected would lead workers and firms to increase wages and prices. (2 marks)

iv. An unexpected increase in the price of an important raw material. (2 marks)

v. An increase in the labor force. (2 marks)

(b) Jones deposits his money at Bank 1, while Maria deposits her money at Bank 2. Balance sheets for each bank are listed below.

Bank 1	
Assets	**Liabilities + Net Worth**
Reserves RM200,000	Checkable deposits RM400,000
Property 600,000	Stock shares 1,000,000
Loans 600,000	

Bank 2	
Assets	**Liabilities + Net Worth**
Reserves RM150,000	Checkable deposits RM300,000
Property 250,000	Stock shares 700,000
Loans 600,000	

Continued .....

i. What will the banks' balance sheets look like when Jones writes a RM50,000 check to Maria and the check clears? (2 marks)

ii. The reserve ratio is 20%. What are each bank's excess reserves after the check clears)? (2 marks)

iii. How many additional loans can each bank make when Jones writes Maria another check for RM100,000? (6 marks)

(Total 20 marks)

QUESTION 4

(a) Explain the term "federal fund rate" and explain the roles it play in the monetary policy process (5 marks)

(b) The following table shows government spending and tax revenue for a hypothetical economy over a five-year period. All figures are in billions.

Year	Government Spending	Tax Revenues
1	RM1100	RM1060
2	1160	1100
3	1250	1150
4	1250	1300
5	1300	1250

i. in what years were there budget deficits and what were the amounts? (6 marks)

ii. in what year was there a budget surplus and what was the amount? (3 marks)

iii. what is the public debt in this economy over the five years? (3 marks)

iv. if the size of the economy (GDP) was RM10000 billion what would the public debt in year 5 as a percentage of GDP. (3 marks)

(Total 20 marks)

Continued .....

QUESTION 5

(a) What is Phillips Curve? Suppose the government misjudges the natural rate of unemployment to be much lower than it actually is, and thus undertakes expansionary monetary policies to try to achieve the lower rate. Use the concept of the short-run Phillips Curve to explain why these policies might at first succeed. (10 marks)

(b) Assume that the Big Mac is selling for $4.07 in the United States. Calculate the implied exchange rate and explain whether the U.S. dollar is overvalued or undervalued relative to each currency. (10 marks)

Country	Big Mac Price	Implied Exchange Rate	Actual Exchange Rate	Dollar is Over Valued/Under valued
Brazil	9.50 reals		1.54 reals per dollar	
Poland	8.63 zlotys		2.80 zlotys per dollar	
South Korea	3,700 won		1,056 won per dollar	
Malaysia	7.20 ringgits		2.97 ringgits per dollar	

End of Page